

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

*Citadel HYTES Fund*

# Citadel Hytes Fund

Citadel HYTES Fund (the "Fund" or "Citadel HYTES") is a closed-end investment trust which became listed on the Toronto Stock Exchange on April 11, 2001. The Fund has a termination date of December 31, 2011, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2006, Citadel HYTES paid total cash distributions of \$1.82 per unit based on monthly distributions of \$0.14 per unit plus a special cash distribution of \$0.14 per unit paid to unitholders of record on December 31, 2006 compared to total cash distributions of \$1.57 per unit in 2005. Commencing in December 2005, the Fund increased its monthly distribution to \$0.14 per unit from \$0.13 per unit. On November 15, 2005, the Fund completed a unit split on a 2 for 1 basis, and as a result all per unit information has been restated to reflect the unit split.

## INVESTMENT HIGHLIGHTS:

	2006	2005	2004
Net Asset Value per Unit <sup>(1)</sup>	\$ 14.62	\$ 18.29	\$ 17.53
Market Price per Unit <sup>(1)</sup>	\$ 13.68	\$ 17.32	\$ 17.08
Trading Premium (Discount)	(6.4%)	(5.3%)	(2.6%)
Cash Distributions per Unit	\$ 1.820	\$ 1.570	\$ 1.935
Trailing Yield <sup>(2)</sup>	13.3%	9.1%	11.3%
Market Capitalization (\$ millions)	\$ 144.3	\$ 186.6	\$ 189.0

<sup>(1)</sup> Net asset value and market price per unit are based on year end values.

<sup>(2)</sup> Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

## Management Report of Fund Performance

(March 20, 2007)

This annual report for the years ended December 31, 2006 and 2005 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel HYTES Fund (the "Fund" or "Citadel HYTES").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at [www.citadelfunds.com](http://www.citadelfunds.com) to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

### INVESTMENT OBJECTIVES AND STRATEGIES

Citadel HYTES' investment objectives are to provide its unitholders with stable, sustainable and tax advantaged distributions and to return the invested capital at the end of the Fund's life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of oil & gas royalty trusts, real estate investment trusts, income funds, limited partnerships, Canadian high yielding investment grade debt and income yielding equity securities.



## RISK

There are a number of risks associated with an investment in Citadel HYTES. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

On October 31, 2006 the Federal Minister of Finance (the "Finance Minister") announced a proposal (the "Trust Taxation Plan") to apply a tax at the trust/partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts and partnerships would have a four-year transition period and generally would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to Canadian income funds (including publicly traded partnerships) and their investors. However, assuming the Trust Taxation Plan is ultimately enacted in the form proposed, those Canadian income fund issuers in which the Trust invests (other than real estate investment trusts that meet prescribed conditions under the new rules) will be subject to the Trust Taxation Plan commencing in 2011 and the implementation of such proposal would be expected to result in adverse tax consequences to such Canadian income funds and to adversely impact cash distributions from such Canadian income funds to the Trust. Based on the composition of the Trust's Portfolio, it is not expected that the Trust itself would be considered a "specified investment flow-through" under the Trust Taxation Plan, and therefore it is expected that the Trust itself will continue not to be directly liable for any material amount of income tax.

## RESULTS OF OPERATIONS

The Fund's net assets declined from \$197.1 million at December 31, 2005 to \$154.2 million as at December 31, 2006 due to portfolio devaluations created by the Government's Trust Taxation Plan and falling commodity prices. On a per unit basis, net asset value fell to \$14.62 per unit from \$18.29 per unit at December 31, 2005.

The Fund's market price also declined, closing the year at \$13.68 per unit down from \$17.32 per unit at the end of 2005. Citadel HYTES' unit price decline plus monthly cash distributions produced a negative 11.4% total return for 2006, while the Fund generated a negative 10.3% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index decreased by 2.8% over the same period.

Total revenue for 2006 increased to \$19.4 million compared to \$18.7 million in 2005 as a portion of the cash balances were deployed in 2006. Administrative and investment manager fees, payable in units of the Fund, totaled \$2.3 million for 2006, down slightly from \$2.4 million for the year ended December 31, 2005 due to a lower net asset value year over year. Trailer fees, totaling \$0.71 million for 2006, were down slightly from the previous year's total of \$0.77 million again due to a lower average net asset value. Total general and administration costs, including other expenses, totaled \$0.34 million for 2006 down slightly from \$0.39 million for 2005. Loan interest costs increased to \$0.6 million in 2006 up from \$0.5 million in the same period in 2005 as interest rates rose year over year. The Fund continued to maintain \$13.5 million on its term facility throughout 2006 and 2005. After total expenses of \$4.0 million in 2006 (2005 - \$4.1 million), the Fund generated net investment income of \$15.4 million or \$1.44 per unit in 2006 compared to \$14.6 million or \$1.33 per unit for the previous year.

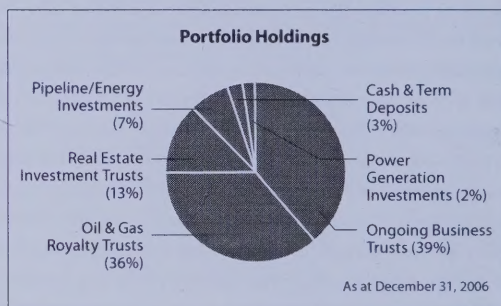
The Fund realized significant gains during 2006 on dispositions of ARC Energy Trust, Energy Savings Income Fund, Vermilion Energy Trust and Summit Reit however these gains were partially offset by large losses realized on Spinrite Income Fund, Entertainment One Income Fund and Specialty Foods Group Income Fund resulting in net realized gains of \$2.7 million compared to net realized gains of \$0.9 million in 2005. Significant unrealized losses

experienced in 2006 of \$38.1 million resulted in total results of operations of negative \$20.0 million or negative \$1.87 per unit. Comparatively, total results of operations were positive \$25.1 million or \$2.29 per unit in 2005, with realized gains of \$0.9 million and unrealized gains of \$9.6 million.

During 2006, Citadel HYTES paid monthly distributions of \$0.14 per unit plus a special cash distribution of \$0.14 per unit to unitholders of record on December 31, 2006 for a total of \$19.4 million or \$1.82 per unit compared to \$17.2 million or \$1.57 per unit in 2005. Effective December 2005, the Fund increased its monthly distribution rate from \$0.13 per unit to \$0.14 per unit.

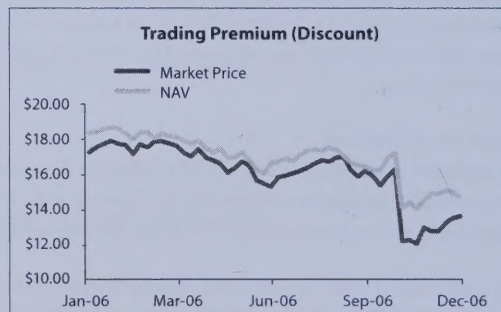
Citadel HYTES uses leverage as part of its investment strategy. During 2006, the maximum borrowing of \$13.5 million was maintained on the term facility. No amount was drawn on the operating facility. The Fund maintained a credit facility with a maximum of \$23.5 million.

The Fund's portfolio mix has remained materially consistent despite some modest changes to the asset mix during the year. Overall, the Fund enhanced its exposure to real estate investment trusts and ongoing business trusts while reducing its cash and oil & gas royalty trust position.



#### TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2006, the Fund's market price traded at an average discount to its net asset value per unit of 5.5% compared to an average discount of 5.2% in 2005. With the widening discount, the Fund repurchased 361,600 units at an average cost of \$15.62 in 2006 under its mandatory repurchase program compared to 430,520 units at an average cost of \$16.91 per unit in 2005. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.



#### RECENT DEVELOPMENTS

Throughout 2006, the trust sector experienced pronounced periods of volatility and sub-sector performance variance in addition to the valuation destruction created by the Government's Trust Taxation Plan. Despite the current unsettled market conditions, the Fund's investment manager feels all negative news has been priced into the trust sector and as a result is optimistic about the opportunities to generate strong returns for the Fund in 2007. Based upon the Fund's current portfolio and analysts' estimates of distributions, Citadel HYTES expects to maintain its monthly distribution rate of \$0.14 per unit for 2007.

#### Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Under NI 81-107, an Independent Review Committee ("IRC") is required to be established by May 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures are to be adopted no later than November 1, 2007 and investment funds must be in full compliance of NI 81-107 at



that time. Citadel HYTES continues to research and develop its IRC and expects to meet each implementation date requirement.

#### **New CICA Financial Instrument Standard**

The Canadian Institute of Chartered Accountants has recently issued Section 3855, "Financial Instruments – Recognition and Measurement". Of importance to investment funds are new definitions and requirements for determining the fair value of financial instruments, particularly investments. Since current securities regulations require that investment funds calculate Net Asset Value ("NAV") in accordance with Generally Accepted Accounting Principles ("GAAP"), This new standard impacts the way in which net asset value is determined. For securities quoted on an open market, the new standard requires the use of bid prices for an asset held as opposed to the closing prices currently used. Bid prices are normally less than closing prices which will result in lower net asset values. Currently, transaction costs such as broker fees are added to the cost base of investments purchased and deducted from the proceeds of investments sold. The new standard requires that these costs be expensed. Although this does not affect the overall NAV, it will increase expenses and the management expense ratio. The new standard is effective January 1, 2007 for Citadel HYTES. Canadian securities regulators have been granted relief from the requirement to calculate NAV for purposes other than financial statements in accordance with this standard, allowing them and investment fund managers the opportunity to further study the issue. This relief is in effect until the earlier of September 30, 2007 and the date on which legislation with respect to calculating NAV for purposes other than financial statements is changed. Until that time, Citadel HYTES intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements.

#### **FORWARD LOOKING STATEMENTS**

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

#### **RELATED PARTY TRANSACTIONS**

Citadel TEF Management Ltd. is the administrator of Citadel HYTES, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund plus the term facility, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year in the 5 year period ended December 31, 2006.

### Net Asset Value (NAV) per Unit

	2006	2005	2004	2003	2002
NAV, beginning of year	\$ 18.29	\$ 17.53	\$ 15.74	\$ 13.42	\$ 12.33
Increase (decrease) from operations:					
Total revenue	1.81	1.71	1.65	1.82	1.71
Total expenses	(0.37)	(0.38)	(0.37)	(0.31)	(0.30)
Realized gains (losses)	0.25	0.09	0.68	0.45	0.73
Unrealized gains (losses)	(3.56)	0.87	1.75	1.94	0.51
Total increase (decrease) from operations	(1.87)	2.29	3.71	3.90	2.65
Distributions:					
From net investment income	1.65	1.54	1.47	1.57	1.56
From capital gains	0.17	0.03	0.47	-	-
Total cash distributions	1.82	1.57	1.94	1.57	1.56
NAV, end of year	\$ 14.62	\$ 18.29	\$ 17.53	\$ 15.74	\$ 13.42

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

### Ratios and Supplemental Data

	2006	2005	2004	2003	2002
Net assets (\$ 000's)	\$ 154,214	\$ 197,054	\$ 194,048	\$ 176,599	\$ 149,768
Number of units outstanding	10,551,223	10,775,966	11,066,948	11,219,770	11,164,238
Management expense ratio	2.21%	2.12%	2.20%	2.20%	2.25%
Portfolio turnover ratio	46.47%	11.45%	12.97%	20.60%	30.03%
Trading expense ratio	0.14%	0.04%	0.06%	0.08%	0.10%
Closing market price	\$ 13.68	\$ 17.32	\$ 17.08	\$ 14.98	\$ 13.40

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.



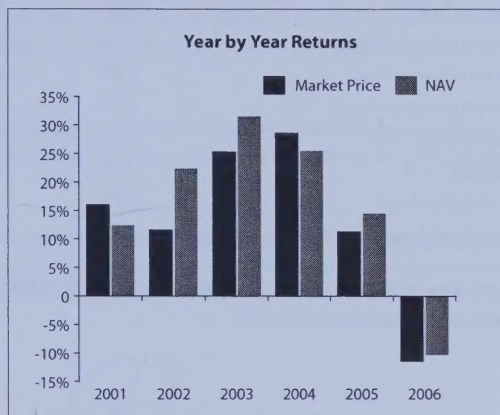
## MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund plus the term facility, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

## PAST PERFORMANCE

Citadel HYTES' performance numbers represent the annual compound total returns over the period from inception in April 2001 to December 31, 2006 (except for returns of less than one year which are compound returns). Total returns are based upon both the Fund's change in market price and net asset value plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



## ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Citadel HYTES based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2006.

	1 Year	3 Year	5 Year	Since Inception
Citadel HYTES (market price)	(11.36%)	8.25%	12.15%	13.44%
Citadel HYTES (net asset value)	(10.29%)	8.84%	15.70%	15.96%
S&P/TSX Capped Income Trust Index	(2.85%)	17.30%	20.33%	19.73%

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Net Assets: \$154,214,476

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	43.3%
Oil & Gas Royalty Trusts	39.2%
Real Estate Investment Trusts	14.2%
Pipeline/Energy Investments	7.8%
Power Generation Investments	1.8%
Cash and Term Deposits	3.8%
Liabilities, net of other assets	(10.1%)
<b>Total Net Assets</b>	<b>100.0%</b>

**TOP 25 HOLDINGS (as a % of net assets)**

ARC Energy Trust	5.9%	Great Lakes Carbon Income Fund	2.9%
Enerplus Resources Fund	4.9%	Paramount Energy Trust	2.8%
Vermilion Energy Trust	4.5%	Cineplex Galaxy Income Fund	2.6%
InnVest Reit	4.5%	Rogers Sugar Income Fund	2.6%
Fort Chicago Energy Partners L.P.	4.0%	Clearwater Seafoods Income Fund	2.5%
Morguard Reit	3.9%	Keyera Facilities Income Fund	2.2%
Medical Facilities Corporation	3.9%	Voxcom Income Fund	2.2%
Bonavista Energy Trust	3.8%	Bell Aliant Regional Comm. Inc. Fd.	2.2%
TransForce Income Fund	3.7%	Focus Energy Trust	2.2%
Harvest Energy Trust	3.6%	Extendicare Reit	2.2%
IBI Income Fund	3.5%	Progress Energy Trust	2.1%
NAL Oil & Gas Trust	3.2%	Canetic Resources Trust	2.1%
Arctic Glacier Income Fund	3.2%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at [www.citadelfunds.com](http://www.citadelfunds.com).



## *Management's Responsibility Statement*

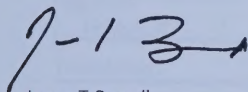
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The financial statements of Citadel HYTES Fund have been prepared by Citadel TEF Management Ltd. ("CTEF") and approved by the Board of Directors of CTEF. CTEF is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

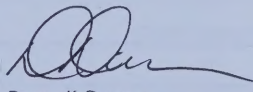
CTEF maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CTEF is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CTEF and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall  
Chief Executive Officer  
Citadel TEF Management Ltd.  
March 20, 2007



Darren K. Duncan  
Chief Financial Officer  
Citadel TEF Management Ltd.

## *Auditors' Report to Unitholders*

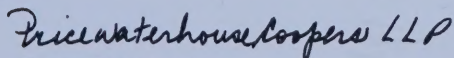
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To the Unitholders of Citadel HYTES Fund

We have audited the statements of net assets and investments of Citadel HYTES Fund as at December 31, 2006 and 2005 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and 2005 and the results of its operations, changes in its net assets and cash flows for the years ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.



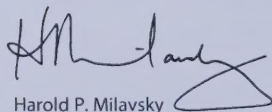
Chartered Accountants  
Calgary, Alberta  
March 20, 2007

# Statement of Net Assets

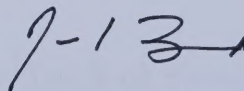
As at December 31	2006	2005
<b>Assets</b>		
Investments, at market	\$ 163,994,125	\$ 197,235,366
Cash and term deposits	5,776,834	13,183,724
Revenue receivable	1,525,868	1,567,078
Accounts receivable	134,276	96,102
Prepaid expenses	15,623	163,839
	171,446,726	212,246,109
<b>Liabilities</b>		
Accounts payable and accrued liabilities	158,270	183,193
Payable for investments purchased	619,638	-
Distributions payable	2,954,342	1,508,635
Loan payable (note 8)	13,500,000	13,500,000
	17,232,250	15,191,828
Net Assets representing Unitholders' Equity	\$ 154,214,476	\$ 197,054,281
Units outstanding (note 3)	10,551,223	10,775,966
Net asset value per unit	\$ 14.62	\$ 18.29

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky  
Chairman of the Board



James T. Bruvall  
Director and Chief Executive Officer



# Statement of Operations

For the years ended December 31	2006	2005
<b>Revenue</b>		
Distribution income	\$ 18,901,490	\$ 16,751,614
Interest income	431,923	1,948,367
Securities lending income	49,153	–
	<b>19,382,566</b>	<b>18,699,981</b>
<b>Expenses</b>		
Administrative and investment manager fees (note 4)	2,277,316	2,446,761
Trailer fee (note 5)	714,120	774,350
Loan interest	635,305	497,974
General and administration costs	146,945	180,736
Directors' fees	72,766	83,121
Reporting costs	46,985	58,975
Audit fees	22,524	23,375
Legal fees	20,204	10,483
Custodial fees	19,275	20,190
Trustee fees	16,181	16,761
	<b>3,971,621</b>	<b>4,112,726</b>
<b>Net investment income</b>	<b>15,410,945</b>	<b>14,587,255</b>
<b>Net realized gain on sale of investments</b> (note 6)	<b>2,698,049</b>	<b>947,979</b>
<b>Net change in unrealized gain (loss) on investments</b>	<b>(38,091,210)</b>	<b>9,578,299</b>
<b>Total results of operations</b>	<b>\$ (19,982,216)</b>	<b>\$ 25,113,533</b>
<b>Results of operations per unit<sup>(1)</sup></b>		
Net investment income	\$ 1.44	\$ 1.33
Net realized gain on sale of investments	0.25	0.09
Net change in unrealized gain (loss) on investments	(3.56)	0.87
	<b>\$ (1.87)</b>	<b>\$ 2.29</b>

<sup>(1)</sup> Based on the weighted average number of units outstanding.  
see accompanying notes

## Statement of Changes in Net Assets

For the years ended December 31	2006	2005
<b>Net Assets – beginning of year</b>	<b>\$ 197,054,281</b>	<b>\$ 194,048,391</b>
Operations:		
Net investment income	15,410,945	14,587,255
Net realized gain on sale of investments	2,698,049	947,979
Net change in unrealized gain (loss) on investments	(38,091,210)	9,578,299
	(19,982,216)	25,113,533
Unitholder Transactions: (note 3)		
Issuance of trust units, net	2,202,027	2,349,171
Repurchase of trust units	(5,648,053)	(7,278,110)
	(3,446,026)	(4,928,939)
Distributions to Unitholders: (note 7)		
From net investment income	(17,612,972)	(16,936,426)
From capital gains	(1,798,592)	(242,278)
	(19,411,564)	(17,178,704)
<b>Net Assets – end of year</b>	<b>\$ 154,214,476</b>	<b>\$ 197,054,281</b>
<b>Distributions per unit</b>	<b>\$ 1.82</b>	<b>\$ 1.57</b>

see accompanying notes

## Statement of Cash Flows

For the years ended December 31	2006	2005
<b>Cash flows from operating activities:</b>		
Net investment income	\$ 15,410,945	\$ 14,587,255
Fees paid in trust units	2,202,027	2,349,171
Net change in non-cash working capital	2,191,674	(4,079,018)
Purchase of investments	(93,117,214)	(40,414,285)
Proceeds from sale of investments	90,965,295	23,919,433
	17,652,727	(3,637,444)
<b>Cash flows from financing activities:</b>		
Cash distributions to unitholders	(19,411,564)	(17,178,704)
Repurchase of trust units	(5,648,053)	(7,278,110)
	(25,059,617)	(24,456,814)
<b>Net increase (decrease) in cash and term deposits</b>	<b>(7,406,890)</b>	<b>(28,094,258)</b>
<b>Cash and term deposits, beginning of year</b>	<b>13,183,724</b>	<b>41,277,982</b>
<b>Cash and term deposits, end of year</b>	<b>\$ 5,776,834</b>	<b>\$ 13,183,724</b>

see accompanying notes



# Statement of Investments

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<b>Oil &amp; Gas Royalty Trusts</b>								
Acclaim Energy Trust	-	\$ -	\$ -	-	310,798	\$ 3,749,251	\$ 5,889,622	-
ARC Energy Trust	410,000	5,046,199	9,143,000	-	635,000	7,815,455	16,821,150	-
Baytex Energy Trust	125,000	2,992,421	2,785,000	-	-	-	-	-
Bonavista Energy Trust	206,000	5,634,620	5,798,900	-	130,000	3,217,580	4,953,000	-
Canetic Resources Trust	198,000	2,752,763	3,255,120	-	-	-	-	-
Enerplus Resources Fund	150,000	4,041,325	7,602,000	-	150,000	4,041,325	8,379,000	-
Esprit Energy Trust	-	-	-	-	300,000	3,446,308	4,038,000	-
Focus Energy Trust	185,000	3,413,883	3,363,300	-	-	-	-	-
Harvest Energy Trust	212,500	5,227,875	5,573,875	-	-	-	-	-
NAL Oil & Gas Trust	399,100	4,352,100	4,912,921	-	329,100	3,333,670	5,950,128	-
Paramount Energy Trust	350,000	4,233,793	4,340,000	-	410,000	4,959,586	9,089,700	-
PennWest Energy Trust	55,000	2,223,358	1,956,350	-	-	-	-	-
Progress Energy Trust	265,000	3,386,700	3,331,050	-	-	-	-	-
Shiningbank Energy Income Fund	110,000	1,707,682	1,413,500	-	300,000	4,657,314	8,745,000	-
Vermilion Energy Trust	200,000	2,829,487	7,000,000	-	400,000	5,658,973	11,896,000	-
Viking Energy Royalty Trust	-	-	-	-	850,000	5,227,875	7,820,000	-
		47,842,276	60,475,016	35.6%		46,107,337	83,581,600	39.7%
<b>Ongoing Business Trusts</b>								
Arctic Glacier Income Fund	390,000	4,111,100	4,882,800	-	-	-	-	-
BFI Canada Income Fund	64,400	1,879,989	1,732,360	-	-	-	-	-
Bell Aliant Regional Comm. Income Fund	125,000	3,447,100	3,370,000	-	-	-	-	-
The Brick Group Income Fund	-	-	-	-	475,000	4,793,700	4,422,250	-
Chemtrade Logistics Income Fund	300,000	3,088,800	2,415,000	-	240,000	2,400,000	2,565,600	-
Cineplex Galaxy Income Fund	300,000	3,069,950	4,065,000	-	396,500	3,968,124	5,788,900	-
Clearwater Seafoods Income Fund	777,118	3,186,684	3,862,277	-	777,118	3,186,684	2,914,192	-
Colabor Income Fund	236,100	2,157,940	2,101,290	-	-	-	-	-
Colabor Income Fund – subscription receipts	60,000	531,000	531,000	-	-	-	-	-
The Consumers' Waterheater Income Fund	180,100	2,420,061	2,416,942	-	-	-	-	-
Custom Direct Income Fund	300,000	2,786,454	2,244,000	-	265,000	2,650,000	2,610,250	-
Davis + Henderson Income Fund	200,000	2,064,733	3,092,000	-	400,000	4,129,467	9,276,000	-
Entertainment One Income Fund	-	-	-	-	1,210,900	7,536,705	6,054,500	-
Great Lakes Carbon Income Fund	400,000	4,123,273	4,520,000	-	351,000	3,671,897	3,545,100	-
IBI Income Fund	445,000	4,545,000	5,384,500	-	350,000	3,500,000	3,482,500	-
KCP Income Fund	216,000	2,177,243	1,607,040	-	400,000	4,109,575	3,680,000	-
Livingston International Income Fund	100,000	1,000,000	2,082,000	-	180,000	1,800,000	4,050,000	-
Medical Facilities Corporation	663,200	6,426,177	5,968,800	-	402,100	4,040,225	4,604,045	-
New Flyer Industries Inc.	-	-	-	-	400,000	4,000,000	3,760,000	-
Prizm Canadian Income Fund	150,000	1,487,994	1,759,500	-	285,000	2,850,000	2,707,500	-
Rogers Sugar Income Fund	1,100,000	4,209,000	4,048,000	-	1,100,000	4,209,000	4,070,000	-
SFK Pulp Fund	400,000	1,620,000	1,652,000	-	-	-	-	-
Specialty Foods Group Income Fund	-	-	-	-	1,111,000	2,900,199	3,010,810	-
Spinrite Income Fund	-	-	-	-	290,400	3,135,940	1,812,096	-
TransForce Income Fund	419,807	3,751,645	5,663,196	-	467,684	4,148,165	7,978,673	-
Voxcom Income Fund	371,300	3,667,518	3,397,395	-	-	-	-	-
		61,751,661	66,795,100	39.3%		67,029,681	76,332,416	36.3%
<b>Real Estate Investment Trusts</b>								
Extendicare Reit	230,000	3,440,428	3,341,900	-	-	-	-	-
Huntingdon Reit	1,125,000	3,093,750	2,587,500	-	1,125,000	3,093,750	3,093,750	-
InnVest Reit	500,000	4,962,369	6,900,000	-	345,000	3,010,470	4,326,300	-
Morguard Reit	442,500	3,717,339	6,079,950	-	442,500	3,717,339	4,867,500	-
Primaris Retail Reit	154,000	2,125,334	2,907,520	-	220,000	3,036,191	3,594,800	-
Summit Reit	-	-	-	-	300,000	4,156,200	7,371,000	-
		17,339,220	21,816,870	12.9%		17,013,950	23,253,350	11.1%

(continued on following page)

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
<b>Pipeline/Energy Investments</b>								
Energy Savings Income Fund	182,000	455,000	2,447,900		450,000	1,125,000	8,545,500	
Fort Chicago Energy Partners L.P.	541,000	6,194,999	6,205,270		–	–	–	
Keyera Facilities Income Fund	205,000	3,465,545	3,411,200		–	–	–	
Superior Plus Income Fund	–	–	–		235,000	3,538,193	5,522,500	
		10,115,544	12,064,370	7.1%		4,663,193	14,068,000	6.7%
<b>Power Generation Investments</b>								
Northland Power Income Fund	210,700	2,526,792	2,753,849		–	–	–	
		2,526,792	2,753,849	1.6%	–	–	–	
Citadel HYTES units – repurchased for cancellation	6,500	88,638	88,920	0.1%	–	–	–	–
<b>Investments</b>		139,664,131	163,994,125	96.6%		134,814,161	197,235,366	93.8%
<b>Cash and Term Deposits</b>		5,776,834	5,776,834	3.4%		13,183,724	13,183,724	6.2%
<b>Total</b>		\$ 145,440,965	\$ 169,770,959	100.0%		\$ 147,997,885	\$ 210,419,090	100.0%

All portfolio holdings are trust units, except the following: Medical Facilities Corporation – income participating security; New Flyer Industries Inc. – income deposit security and Fort Chicago Energy Partners L.P. – limited partnership unit.

## Notes to Financial Statements

December 31, 2006 and 2005

### 1. STRUCTURE OF THE FUND

Citadel HYTES Fund (the “Fund” or “Citadel HYTES”) is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of February 27, 2001. The Fund commenced operations upon completion of its initial public offering on April 11, 2001. The term of the Fund continues until December 31, 2011 in accordance with the provisions of the Fund’s Declaration of Trust.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

#### (a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

#### (b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

#### (c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2006 and 2005, no provision for income taxes has been made in these financial statements.



**(d) Investment income**

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recorded on the ex-distribution date. Capital gains and losses are recorded on the trade date.

**(e) Financial instruments**

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, revenue receivable, accounts receivable, accounts payable and accrued liabilities, payable for investments purchased, distributions payable and loan payable approximate their carrying amount due to the short-term maturity of these instruments.

**3. UNITHOLDERS' CONTRIBUTION**

**Authorized**

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Trust units – beginning of year	10,775,966	\$ 125,224,362	11,066,948	\$ 130,153,301
Issued for services (note 4)	136,857	2,202,027	139,538	2,349,171
Repurchase of trust units	(361,600)	(5,648,053)	(430,520)	(7,278,110)
Trust units – end of year	10,551,223	\$ 121,778,336	10,775,966	\$ 125,224,362

On November 15, 2005, the Fund completed a unit split on a 2:1 basis. All comparative information has been adjusted to reflect this unit split. The weighted average number of units outstanding for the year ended December 31, 2006 was 10,692,805 (2005 – 10,965,671 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of such quarter. For the year ended December 31, 2006, Citadel HYTES repurchased 361,600 trust units under this program at an average cost of \$15.62 per unit (2005 – 430,520 units at an average cost of \$16.91 per unit).

**4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES**

Citadel TEF Management Ltd. ("CTEF") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund plus the term facility, payable in units monthly in arrears. For the year ended December 31, 2006, a total of 133,194 units were issued pursuant to these agreements (year ended December 31, 2005 – 135,712 units) and the Fund recorded an expense of \$2,277,316 (2005 - \$2,446,761) in respect of the administrative and investment management fees during the year. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. Included in accounts receivable were amounts owed from CTEF of \$134,276 at December 31, 2006 (2005 - \$96,102 in accounts receivable).

Directors of CTEF received a total of 3,663 units in April 2006 (April, 2005 – 3,826 units) as part of their annual retainers.

**5. TRAILER FEE**

Citadel HYTES pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2006, the Fund recorded an expense of \$714,120 (2005 - \$774,350) relating to the trailer fee.

## 6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

For the years ended December 31	2006	2005
Net proceeds from the sale of securities	\$ 90,965,295	\$ 23,919,433
Less cost of securities sold:		
Investments at cost – beginning of year	134,814,161	117,371,330
Investments purchased during year	93,117,214	40,414,285
Investments at cost – end of year	(139,664,131)	(134,814,161)
Cost of investments disposed of during year	88,267,244	22,971,454
Net realized gain on sale of investments	\$ 2,698,049	\$ 947,979

## 7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon cash distributions received by the Fund less estimated expenses. For the years ended December 31, 2006 and 2005, the Fund also distributed a portion of its realized capital gains in order to supplement distributions.

For the years ended December 31	2006	2005
Net investment income for the year	\$ 15,410,945	\$ 14,587,255
Add fees paid by issuance of units	2,202,027	2,349,171
Capital distributed	1,798,592	242,278
Cash distributions	\$ 19,411,564	\$ 17,178,704
Cash distributions per unit	\$ 1.82	\$ 1.57

## 8. LOAN PAYABLE

In 2006, the Fund maintained a credit facility with a Canadian chartered bank for up to a maximum amount of \$23.5 million of which \$13.5 million related to a term facility and \$10.0 million related to an operating facility. The term facility was fully drawn as at December 31, 2006 and 2005 and no amounts were drawn on the operating facility at December 31, 2006 and 2005. Effective January 1, 2007, the term facility was extended until the earlier of December 31, 2011 or termination of the Fund and increased to \$15.0 million, while the operating facility was cancelled. Borrowings are collateralized by a general security agreement which provides a first floating charge over the Fund's assets. The term and operating credit facilities bear interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances.

## 9. BROKER COMMISSIONS

For the year ended December 31, 2006, the Fund paid commissions to brokers of \$254,706 (2005 – \$77,688) and they are recorded in the purchase and sale of investments.

## 10. SECURITIES LENDING

The Fund engaged in securities lending during 2006 and as at December 31, 2006, the Fund had lent out \$40.3 million of its portfolio securities with \$43.4 million of collateral in primarily federal and provincial bonds.







# Corporate Information

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## Administrators

Citadel Diversified Management Ltd.  
Citadel S1 Management Ltd.  
Citadel TEF Management Ltd.  
Citadel CPRT Management Ltd.  
Citadel Series Management Ltd.  
Equity Lift Management Ltd.  
N.A. Energy Management Inc.  
Stable Yield Management Inc.  
Sustainable PE Management Inc.  
Equal Weight Management Ltd.  
CGF Funds Management Ltd.  
CGF Resource FT Funds Management Ltd.  
Suite 3500, 350 - 7th Avenue S.W.  
Calgary, Alberta T2P 3N9  
Telephone: (403) 261-9674  
Toll Free: 1 877 261-9674  
Fax: (403) 261-8670  
Website: [www.citadelfunds.com](http://www.citadelfunds.com)  
Email: [info@citadelfunds.com](mailto:info@citadelfunds.com)

## Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un,  
SRC.un and CSR.un)  
Bloom Investment Counsel, Inc.  
Suite 1710, 150 York Street  
Toronto, Ontario M5H 3S5

## Investment Manager

(EPF.un, SPU.un and CGF Resource 2006)  
Galileo Equity Management Inc.  
161 Bay Street, Suite 4730  
Toronto, Ontario M5J 2S1

## Investment Manager

(CPF.un)  
Fiera YMG Capital Inc.  
1501 McGill College Avenue, Suite 900  
Montreal, Quebec H3A 3M8

## Rebalancing Advisor

(IEP.un, EQW.un and FPR.pr.a)  
Shaunessy Investment Counsel Inc.  
Suite 504, 933-17th Avenue S.W.  
Calgary, Alberta T2T 5R6

## Directors and Officers

Harold P. Milavsky - Chairman of the Board  
Micheline Bouchard - Director  
Doug D. Baldwin - Director  
Kent J. MacIntyre - Director  
James T. Bruvall - Director and Chief Executive Officer  
Darren K. Duncan - Chief Financial Officer

## Trustee

Computershare Trust Company of Canada  
Sixth Floor  
530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

## Custodian

CIBC Mellon Global Securities Services Company  
320 Bay Street, 6th Floor  
Toronto, Ontario M5H 4A6

## Legal Counsel

Stikeman Elliott LLP  
4300 Bankers Hall West  
888 - 3rd Street S.W.  
Calgary, Alberta T2P 5C5

## Auditors

PricewaterhouseCoopers LLP  
3100, 111 - 5th Avenue S.W.  
Calgary, Alberta T2P 5L3

## Stock Exchange Listings

The Toronto Stock Exchange  
Citadel Diversified Investment Trust units: **CTD.un**  
Citadel S-1 Income Trust Fund units: **SDL.un**  
Citadel HYTES Fund units: **CHF.un**  
Citadel SMaRT Fund units: **CRT.un**  
Citadel Premium Income Fund units: **CPF.un**  
Series S-1 Income Fund units: **SRC.un**  
Income & Equity Index Participation Fund units: **IEP.un**  
Energy Plus Income Trust units: **EPF.un**  
Citadel Stable S-1 Income Fund units: **CSR.un**  
Sustainable Production Energy Trust units: **SPU.un**  
Equal Weight Plus Fund units: **EQW.un**  
Financial Preferred Securities Corporation shares: **FPR.pr.a**  
CGF Resource 2006 Flow-Through Limited Partnership units: not listed





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